

BEWARE of DEBT SETTLEMENT PLANS

and promises of easy solutions

Debt and the threat of garnishment or foreclosure can put a great deal of stress on you and your family. Debt and debt collector harassment can make it difficult to know what to do and how best to protect your family and home. It can cause you to pay on credit card debt rather than pay necessary living expenses. Promises and offers of help from debt settlement companies can be very inviting. The problem is that some of these promises from debt settlement companies are unrealistic and expensive. They may even end up making your financial situation worse.

Debt settlement companies are not the same as non-profit credit counseling agencies that help consumers for little or no fees to pay off their debts. Consumer counseling agencies help you to continue payments and can often negotiate lower interest rates and monthly payments.

What are Debt Settlement Companies?

Debt settlement companies promise to stop debt collection harassment while settling your unsecured debt for less than you owe. They call their services "debt settlement." They may also use names such as "debt negotiation," "consumer debt relief" and "debt elimination services."

These companies are looking for people with large amounts of unsecured debt who do not want to file for bankruptcy. Most of these companies are located outside of Iowa. They have little Iowa regulation.

How does the debt settlement plan work?

- * You enter into an agreement for the debt settlement company to negotiate the settlement of your debts.
- * You agree to stop making payments to your creditors and refer all debt collection to the company.
- * Instead of paying the creditors, you send a monthly payment to a special bank account set up by the company.
- * When the company (or your special bank account) has enough of your money, the company will then try to negotiate the pay off of your debts.

In the meantime, all payments to your creditors stop.

Will they be able to settle my debts and how much will it cost me?

This plan may work if your creditors are willing to wait until the debt settlement company has enough money to negotiate a settlement. In the meantime, your debts go unpaid with interest rates soaring and late fees & penalties adding up. Debt settlement companies generally collect their setup fees from your first payments. These fees can be well over \$1,000.

It may take a number of months before your settlement account even starts growing. It may take many months or years before there is enough money in your account to settle any of your debts.

In the meantime, you will likely be required to continue paying the company a monthly fee as well as pay a service charge for your special bank account. In addition, if the company settles the debt for less than you owe, some companies will also charge you a percentage of this savings.

Even with the plan in effect, there is no guarantee that debt collectors will stop contacting you or that the debt settlement company will succeed in settling the debt. Another problem is that some of your creditors may not be willing to wait for negotiations with the debt settlement company. Some creditors may also refuse to work with the debt settlement company. If this is the case, you are in for a big shock when you are served notice that a lawsuit for your debt has been filed against you in district court.

Will the debt settlement company help me defend against a lawsuit?

The out of state debt settlement company will not help you defend against the lawsuit. Some companies may hire an Iowa attorney to assist you. To do this, they would use money from your settlement account for this extra cost. Some debt settlement companies may tell you to hire your own Iowa attorney. Other companies will tell you to do nothing if you are "judgment proof." To be sued on debt that you thought was being taken care of is very frustrating. In addition, the debt is now much larger than when you stopped making payments.

What Should I do if I am sued on my debt?

- * You must decide whether to defend against the lawsuit or negotiate a new payment plan with the creditor. You can do this on your own or with the help of an Iowa attorney.
- * You can cancel your agreement with the debt settlement company and request the return of your settlement account money. You should review your agreement to see how to do this. Some companies will keep fees already collected.
- * Find out what protections your income and resources have against debt collection.
- * Find out how you can stop debt collection harassment.
- * You should check to see if bankruptcy is an option for you to discharge debts.

Should I use a Debt Settlement Company?

Using a debt settlement company to solve your debt problems may sound like an easy solution but it can put you in a worse position than when you started. You could end up with a large judgment against you and the threat of garnishment. You may pay expensive fees with no results. You may wonder why you didn't use the debt settlement payments to continue paying creditors on your own or to file for bankruptcy in the first place. Before entering into an

agreement with a debt settlement company, you should consult with a reputable debt counseling agency.

If you believe that you have been taken advantage of by a debt settlement company, please contact the Legal Hotline for Older Iowans 1-800-992-8161 or your Iowa Legal Aid regional office. You may also want to report complaints to the Iowa Attorney General's Office and the Iowa Banking Division. This information is from the Legal Hotline for Older Iowans. The Legal Hotline is a project of Iowa Legal Aid that is partially funded by the U.S. Administration on Aging. The Hotline is a free, confidential service for all Iowans 60 or older with questions on non-criminal legal matters.